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SUBJECT: Tajikistan: Economic Tour de Table

¶1. (U) Summary: Treasury Attache Tom Lanier's March 24-31 visit highlighted several challenges the country's financial institutions and large enterprises face. Meetings with government officials, international organizations, and business leaders showed the economy in poor shape, but not a total lost cause. The bad news includes: incompetent bureaucracy, convoluted fiscal management, non-transparency, a failing agricultural sector, remnants of a closed and centrally-run economy, a debilitating debt burden, loss of international credibility, and stalled economic reforms. More positively, there were glimmers of hope in the small and medium scale private sector, the new leadership of the National Bank, and potential investment opportunities in mining and hydropower. End Summary.

Ministry of Finance - Contrition

¶2. (U) Minister of Finance Safarali Najmuddinov admitted that the government had made "many, many" mistakes and blamed inexperience for slowing Tajikistan's transition to a free economy. Najmuddinov promised more transparency following the revelations about the cotton debt problem and hoped this would attract more investments and loans, though he did not appear to fully understand the types of debt the government was taking on. It was also not clear whether the loan guarantee terms that the National Bank had contracted with foreign banks had been shared with the Ministry of Finance. Najmuddinov explained that the budget deficit, forecasted to be 2.4% of GDP, would be covered via privatizations, the issuance of Treasury bills, and excess cash reserves held at the National Bank.

National Bank of Tajikistan - Independence Days

¶3. (U) New Chairman Sharif Rahimzoda assured us that the National Bank would be more independent under his leadership. Rahimzoda, who has been on the job for two months, did not impress us with extensive knowledge of general central bank issues, but he did acknowledge the need for better reporting, transparency, monetary policy, and asset and liability management. Rahimzoda seemed eager to rebuild the Bank's lost credibility after the IMF misreporting scandal under previous Chairman Murodali Alimardon (now the Deputy Prime Minister responsible for the cotton sector). Lanier recommended that the Tajik National Bank follow the footsteps of other central banks and seek legal representation from an international firm. Lanier expressed concern that the National Bank's net level of reserves was too low at only \$70-80 million (total reserves are \$320 million).

Presidential Advisor Davlatov

14. (U) Matlubkhon Davlatov, the State Economic Advisor (and rumored Uncle) to President Rahmon, expressed gratitude for U.S.-funded assistance programs, and for the bridge at Nizhny Pyanj connecting Tajikistan and Afghanistan. He said he was focused on avoiding another power and food crisis next winter (without giving specifics), asked for another bridge, and for a break on the repeated visa applications he has to make for each trip to the United States. (Note: Based on reciprocity, Tajik diplomats receive single entry visas; the Embassy has encouraged the Tajik Foreign Ministry to issue multiple entry visas instead.)

TALCO - New Line of Business

15. (U) TALCO, the behemoth state-owned aluminum company, has entered the energy sector, according to Commercial and Financial Director Sherali Kabirotov. TALCO recently purchased a \$15 million heating station project near Dushanbe and a \$25 million power station in Turkmenistan. Kabirotov said TALCO hoped to reduce the \$350-400 million in yearly transport costs of raw material inputs for its aluminum plant, by developing mining in Tajikistan. Kabirotov was adamantly opposed to privatization of TALCO, citing the need for strong management. He said TALCO's leadership reports directly to the President. When asked why TALCO was entering the power industry, he said it was at the President's order. Kabirotov emphasized that TALCO paid a large part of the government budget, but pointedly declined to provide specific figures. Nor did he acknowledge that state-owned Barki Tojik provides subsidized electricity to TALCO.

World Bank - Upside Down

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16. (SBU) Lanier met with Chiara Bronchi, recently arrived Country Manager for the World Bank. Ms. Bronchi expressed guarded optimism about the economic situation. She said that while the economy was "upside down," now was the time to push for reform. Ms. Bronchi criticized the command-and-control cotton sector supported by "messy" financing, but noted that at least the quality of the cotton was good. She commented on the potential of the energy sector, but worried that the urgent need to maintain existing systems overshadowed new projects. She questioned the likelihood of obtaining an estimated \$400-500 million required for the rehabilitation of the Nurek dam. The dam is sinking, and the turbines need to be restored.

IMF - the Dog Chases its Tail

17. (SBU) The IMF Resident Representative, Lucas Moers, warned that expectations of the IMF-sponsored audit of the National Bank (not likely to take place before the end of the year) may be too high since it would be based largely on information provided by the Tajik Government itself, which would likely be limited. Moers said National Bank reforms should include increased independence from the Ministry of Finance, a board with representatives that are not affiliated with the political establishment, and rules that explicitly define conflicts of interest. On a macroeconomic level, Mr. Moers said that Tajikistan must prioritize agricultural sector reform. Ideally the government should go after the politically-connected cotton investors, but he joked that that would be like a "dog chasing its tail."

KazCommerce Bank

18. (U) KazCommerce's Board Chairman, Rashid Saidov, told Lanier that aside from the difficulty of obtaining a license from the National Bank (received on January 24, 2008), the company had not encountered significant government interference. KazCommerce Bank, the first major foreign commercial bank to operate in Tajikistan, will initially target trade finance and corporate clients and later small

and medium enterprises. Saidov claimed that KazComemmerce Bank would not conduct business with politicians who have their own companies or extend credit to state-owned companies, but then later in an apparent contradiction admitted that KazCommerce had loaned \$12 million to TALCO [Note: KazCommerce was also the largest provider of government-guaranteed loans to cotton investors in the recent Central Bank/IMF misreporting scandal]. Saidov said that high interest rates in Tajikistan were favorable for KazCommerce, but noted problems such as the lack of investment capital, the absence of a securities market, and poor currency exchange facilities.

Somon Capital

19. (U) The Executive Director of Somon Capital, Michael Pedersen (of Denmark), told us that Tajikistan had excellent investment potential, but noted several major obstacles to investors. He said the largest impediment to business development was corruption and vested interests. In order to attract foreign investment the government must sign the New York Convention (on the Recognition and Enforcement of Foreign Arbitral Awards) and pursue a sovereign rating. Nine Tajik government ministers met with representatives from Moodys and Standard & Poor on February 7. Unfortunately since the IMF misreporting scandal, progress on a sovereign rating has stalled.

Comment

10. (SBU) Lanier arrived after the winter weather had abated, but he was still witness to a troubled economic situation. He was encouraged, however, to find that the new Central Bank chairman seemed more independent-thinking than his predecessor. The news from TALCO that it is entering the energy sector is another sign that the President clings to Soviet-style central planning. As the World Bank and IMF said, if the economy is to avoid serious decline the government must turn around its failed agricultural (particularly cotton) policy, reduce government interference in the private sector, improve fiscal transparency, implement land reform laws, and establish free economic zones. Basic steps like signing the New York Convention and seeking a sovereign rating would increase Tajikistan's credibility for potential investors; but taking these steps will upset vested interests. End Comment.

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